



MINUTES
SPECIAL MEETING
OF THE
FINANCIAL ADVISORY BOARD

Wednesday, April 14, 2010 7:00 p.m.
El Cerrito City Hall
Hillside Conference Room
10890 San Pablo Avenue

Roll Call

Members Present- Bartke, Caftel, Hill, Jackson, Kronenberg

Member Absent -None

Council Liaison Present - Lyman (arrived late)

Staff Liaison Present - Dodge

1. Council / Staff Liaison Report

Dodge distributed a memorandum issued by the City Manager regarding the reasons for not further considering an increase of Utility Users Tax. The memo addressed questions the FAB had earlier regarding an increase in UUT and used data from a Godbe report relating to the Street Improvement Measure. The report showed a lower resident response to UUT increases than Sales Tax. Caftel felt that the memo nor the poll fully addressed the question and that a new poll should be taken that specifically addressed whether residents preferred a Sales Tax or a UUT increase. Jackson asked about the timing of the poll felt it had been a long time since the poll was done. Dodge commented on another concern of the City Manager's regarding the UUT was its dependence on energy use for revenue generation.

Kronenberg asked if any measure was currently being pursued and Dodge responded that that question and many other budget specific items would be taken to Council on Monday. Kronenberg asked about the reference to a 10.25% limit and Dodge responded that it was a legal restriction and the County or another agency able to impose this type of tax could be proposing another measure for November. Dodge said that another issue is the uncertainty whether the State will continue their 1% tax that is currently in place and sunsets in July 2011.

Bartke commented on the 65.6% approval at the Measure A poll and Dodge mentioned Godbe's comments on failures in other areas on an increase in UUT. Dodge said that there would be more polling done if the direction from the Council was received, but that it would be primarily for a sales tax.

A discussion was held on whether the FAB should formally recommend to the Council the consideration of a UUT increase instead of a Sales Tax increase and no formal recommendation was proposed but the recommendation that a UUT increase be considered was requested to be shown in the minutes.

Hill asked about the timing of receiving funds if the Sales Tax passed and Kronenberg asked about projected deficit. Dodge said the funds would not be received until one quarter after a measure was passed and that deficit was around \$200K for next year and there was one projected for this year. These deficits would impose the restrictions on use of reserves if there were not alternate revenues to replenish the reserves.

Councilmember Lyman reported on Council activity relevant to the FAB since the last meeting on February 11, 2010 including various contract approvals and the repayment of the Low and Moderate Housing Fund by the RDA fund and the use of funds to pay the SERAF. Also discussed was the memorandum issued to Council regarding the error on one of the slides at the mid-year budget review relating to the insurance projection which understated the expenditures by \$300K and the Quarterly Investment Report (QIR). Caftel asked why the FAB did not receive the QIR and Hill commented on the timing issue that was discussed by the FAB a while ago and Dodge said she could include subsequent reports but could not assure the FAB they would be presented prior to going to the City Council and it was agreed that would be acceptable. The addition of the new School Resource Officer into the head count was presented as was the new Retirement Health Savings Account relating to the Police Chief and potential plans for other benefit groups.

Also reported was the LLAD contract for work, the use of the Measure WW funds and the continued discussion and adoption of the Reserve Policy on March 15th. Lyman reported that the two tiered approach recommended by the FAB was adopted with some changes including timing for replenishment. Lyman reported on the Councils appreciation of the efforts of the FAB in developing the new policy.

The opening of the Bruce King Memorial Dog Park was discussed as well as the hiring of Swinerton to develop the RFP for the selection of the design/build vendor for the new Recycling Center as well as the continuation of the Swim Center and NPDES parcel tax.

Bartke commented on his attendance at a Council meeting where the Reserve Policy was discussed.

2. Comments from the Public

None present

3. Approval of Minutes

There were grammatical errors in the draft minutes pointed out by FAB members which will be incorporated into the final minutes prior to final posting. Caftel questioned an item in the third paragraph in of item 4 that discussed a report to be provided to Caftel that he had not requested relating to cell phones and that sentence will be removed. A motion was made to approve the minutes of February 11, 2010 with these recommended corrections. M/S Caftel/Hill – Motion passed unanimously with corrections.

4. Review of Memorandum on Internal Control issued by the auditors

Dodge discussed the overall changes in audit requirements relating to the Memorandum of Internal Controls (MOIC) due to the passage of the Sarbanes-Oxley Act as well as the items in the report issued by the city's auditors, Maze & Associates. Dodge discussed the item pertaining to building permit fee collection that had been considered as a "significant deficiency" in the draft report but was changed to an "other matters" after further discussion

with the auditors. The issue pertains to manual calculation of fees and the complexity of the current fee schedule and the permitting software system, CRW. The auditors concern was for any manual calculations and staff had problems not doing manual calculations due to the structure of the fees in the system and efforts are being made to have the software company and potentially the fee schedule be revised. After the auditors were made aware of the software concerns the item was no longer considered a significant deficiency.

Dodge discussed the only significant deficiency the city has received during her tenure as one where she felt the RDA Housing staff had done nothing wrong, and that error was in her interpretation and posting of the loan to fund development of the Ohlone Gardens Apartments. The development had been stalled during the interim audit and therefore staff did not inform the auditors of the potential loan. When the project went forward and funds were disbursed Dodge discussed the appropriateness of recording an item not due for 50 years as a receivable with staff and she incorrectly recorded it as a grant when it should have been recorded as a loan and deferred revenue on the balance sheet. She said any items of this type will be recorded in this manner in the future. Caftel commented that he felt the management response did not address both issues and Dodge said she thought the second comment was going to be removed and should have commented on it.

Dodge said the other items were primarily of an operational nature. Caftel asked if there was a defined scope and Dodge said there was not since these types of comments are related to procedures and not individual transactions. Dodge said the comment on the Purchasing Policy was a project she would like to work on with the FAB. The policy needs to be reviewed and she felt the FAB could assist in tightening up the language and advising on the limits of authorization.

Dodge also discussed the difficulty of having the appropriate separation of duties in Finance and HR due to the small amount of staff and Bartke commented this also being a problem due to the need to have some redundancy and cross training. Dodge also commented on the lack of audit logs in the Tier III finance system that the city has, and that some of the IT comments would not ever be able to be accomplished. Caftel questioned whether the comment related to a review and not an audit log. Dodge said a review is always done, but not from a log that shows every change. It is reviewed from the original documents to the system which is not as efficient or as strong of a review.

Dodge also discussed the comment on obtaining an actuarial study pertaining to the OPEB implicit rate. The concern is the overall rates for the City are higher due to the inclusion of the retirees and the study will show if the subsidy is material in nature and that amount will be disclosed in the financial statements. Hill suggested that if the amount was material a two tiered approach could be developed so the retirees could pay for their portion. Caftel said that COBRA laws allowed for a 2% administrative fee. Dodge commented that she felt the amount would be immaterial when the actuarial report was received. Bartke recommended that FAB members who had specific questions contact Dodge directly and requested that the MOIC be on the next agenda to make sure all questions were addressed.

5. Next meeting and adjournment

Dodge said that for the next meeting the budget would be discussed and potentially there could be more than one version of the budget. Dodge also mentioned the need to work on the

Purchasing Policy but the FAB wanted to wait until after the budget was done. Caftel recommended June to work on the Purchasing policy. A meeting for May 5, 2010 was agreed on and Kronenberg said he needed to check his calendar. The FAB thanked Hill for her service to the Board and Dodge mentioned that there currently were no new applicants.